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16 July 1965

MEMORANDUM

SUBJECT: Hong Kong

1. The crown colony of Hong Kong, an enclave on the South China coast, has been maintained for more than a century as an outpost of British military and economic power in the Far East. Since the Communist victory on the mainland, however, Hong Kong's vulnerable military position, together with the scheduled reversion of leased territories to China in 1997, has cast a shadow over the colony's continuing economic prosperity.

2. For the time being, Peiping appears willing to leave the question of the colony's reversion to China in abeyance. Hong Kong's primary importance to the Chinese Communist regime is economic. It is Communist China's principal source of critically needed hard currencies.

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The Communists also use Hong Kong as an outlet for propaganda activity directed to the Overseas Chinese population of Southeast Asia through books, periodicals, and films prepared by their publishing houses and movie companies in the colony. In addition, to some extent Hong Kong serves the Communists as a lever for ensuring a moderate British policy on China.

3. The British, long aware that a strong China would challenge their hold on the colony, have in recent years followed a policy of judicious compromise with Peiping on issues affecting Hong Kong. At the same time, London has successfully resisted Peiping's overtures to establish an official representative in Hong Kong.

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Hong Kong provides a showcase for the potentialities of the Chinese people under conditions of private enterprise. The small British military force of some 8,100 men is important only for internal security and could put up only a token resistance to a determined attack from the mainland.

5. Hong Kong has been a major battleground in the cultural war between the Chinese Nationalists on Taiwan and the Peiping regime, competing for minds and loyalties of the Overseas Chinese.

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6. The colony is governed by a group of British career officials headed by a governor, presently Sir David Trench, appointed by London. There has been little effort (and no widespread demand) to provide any real measure of local government to the colony. The century of efficient, authoritarian British administration has created stable conditions which have resulted in great commercial and industrial development. Important merchants, financiers, and manufacturers, both British and Chinese, have considerable influence on the colony's administration for, although most major political decisions concerning the colony are made in London, Hong Kong's continued economic prosperity is a key consideration in such decisions.

7. The vital factor in the economy of Hong Kong is foreign trade. It has almost no domestic hinterland. Hong Kong is engaged in a vigorous program of market and trade expansion with emphasis on increased exports of local manufactures to world markets.

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8. Hong Kong has become increasingly prosperous in recent years. Restrictions to international trade are almost nonexistent. Most imports are duty free and are not subject to quantitative restrictions. There is adequate foreign exchange and credit. The colony has a skilled labor force, low labor costs, a highly efficient administration, an adequate supply of short-term risk capital, a stable convertible currency, and a number of tax advantages. Tourism has experienced a phenomenal growth, trade is increasing rapidly, construction is booming, and manufacturing is expanding. In the past few years the light manufacturing industry, in particular, has experienced an accelerated rate of growth.

9. Obstacles to the economic development of the colony include an absence of raw materials, shortage of land suitable for industrial purposes, and scarcity of water.

10. The population consists almost entirely of Chinese, there being only about 50,000 non-Chinese among the 3.6 million residents. The colony's higher living standard as compared with that of mainland China is one of the principal factors which have attracted most of the permanent population of Hong Kong from neighboring Chinese provinces as well as the more recent influx of refugees. The necessity to provide these refugees with jobs and sanitary living quarters is a continuing challenge to the British administrators in view of the colony's limited resources.

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